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SUBJECT: OCTOBER 8 SOUTH AFRICA ECONOMIC NEWS

REF: PRETORIA 4503

SUMMARY

11. Summary. Each week, USEmbassy Pretoria publishes an economic newsletter based on South African press reports. Comments and analysis do not necessarily reflect the opinion of the U.S. Government. Topics of this week's newsletter include September Motor Vehicle Sales, Update on Trade Conditions, Residential Property Prices, Increased Funding to Facilitate BEE Finance Charter; Reserve Bank Issues Financial Stability Review; South Africa Drops in Global Investment Rankings; Cabinet Recommends Published Administered Price Index; and July Retail Sales. End Summary

SEPTEMBER MOTOR VEHICLES CONTINUE HIGH GROWTH

12. Encouraged by a 2003 5.5 percent reduction in interest rates and an additional mid-August 2004 0.5 percentage point reduction, new car sales should post a record sales year. According to the National Association of Automobile Manufacturers (NAAMSA), September sales of motor vehicles increased by 22.7 percent (y/y), the second highest monthly increase on record. New car sales increased 21.2 percent in September, with 1,164 new passenger cars being sold per day compared to August's daily average of 1,117 and 961 in September 2003. Compared to September 2003, year-to-date sales have been 20 percent higher. Medium and heavy commercial vehicles also posted strong year-to-date growth at 18.9 percent. Nico Vermeulen, NAAMSA's director, expects that 2004 new vehicle sales should reach an all-time record of 455,000 vehicles. Note Business Report, October 5; Standard Bank Motor Alert, October 4 Endnote

TRADE CONDITIONS STILL UPBEAT

13. Both the South African Trade Management Indices and the South African Chamber of Commerce business confidence index still indicate positive growth expectations in the near future. The South African Trade Management Indices, measuring both trade activity and expectations, indicate that September's activity and short-run expectations are roughly the same as August's and still positive. The trade activity index measures the monthly trading conditions, while the trade expectations describes expected activity in the next six months. Eight components (sales volumes, new orders, order backlog, supplier deliveries, inventories, selling prices, purchasing prices and employment) make up both the trade activity and expectations indices. September's total trading activity index registered at the threshold value of 50: above (below) which trading conditions have improved (deteriorated). All components but employment improved in September, implying that no new jobs were created in September. Since the beginning of this survey in 2000, the employment sub-component has rarely exceeded 50, confirming the endemic unemployment prevalent in South Africa. The survey shows that inflation (selling prices) remained neutral (at 51 compared to 49 in August); however input purchasing prices keep showing substantial increases (59 compared to August's 57). Over the next six months, the September trade expectations index supports a continued optimistic sales forecast at 63 (compared to August's 64) with all but one components registering above 50. Sales volumes and new orders show the highest expectations of increasing over the next six months, in line with increasing economic growth later in 2004. The South African Chamber of Business's (SACOB) business confidence index

increased 3.1 points in September to 130.9 with eight of its 13 components improving in September. The index reached its highest level in September, with inflation and interest rates relatively low and the rand more stable in September. Note Business Day, Business Report, October 6; Standard Bank SATMI October 5 Endnote

RESIDENTIAL PROPERTY PRICES STRONG BUT LEVELING

14. According to data collected from the Deeds Office, house prices may have slowed in Q2 2004, but this data is often revised substantially and the slowdown in housing prices will need confirmation by other sources. National housing prices, both nominal and real, are increasing at a record level of over 30 percent, as measured using a three-month moving average. However, recent increases have leveled off. Prices for housing financed by Standard Bank (including mortgages with assessment values up to R1 million or \$154,000) seem to show the same leveling-off trend, with prices increasing 20 percent over the past three months. The prices of existing houses have increased substantially more than new homes. The national affordability index, based on installment to income ratio (calculated as mortgage payments using the median national house price and the prime rate, over per capita disposable income), is still relatively low compared to the 1990s. Note Business Report, October 6; Standard Bank Residential Property Note, October 5 Endnote

INCREASED FUNDING TO FINANCE BEE FINANCE CHARTER

15. Banks, life insurers and pensions will commit R122.5 billion (USD19 billion, using 6.5 rands per dollar) over five years to fund black economic empowerment (BEE) in SA. If accepted at the first charter council meeting next week, finance companies will invest 60 percent more money than the R75 billion earmarked when the charter was signed a year ago. This will also be the largest single investment in empowerment finance, more than the R100 billion committed by mining companies and the R10 billion set aside by government. This R122.5 billion is allocated into five areas: (1) R50 billion for black empowerment deals; (2) R42 billion to provide financing for low-cost housing; (3) R25 billion to finance infrastructure projects in rural areas; (4) R4.1 billion for small black business; and (5) R1.4 billion for financing black agriculture. The charter was launched in 2003, but announcements of financial sector targets were delayed because of disagreements between the Banking Council, representing South Africa's banks, and the Association of Black Securities and Investment Professionals. Companies will be expected to provide a portion of the R122.5 billion according to market share of investable assets. REFTEL PRETORIA 4503 Note Business Day, October 6 Endnote

RESERVE BANK ISSUES FINANCIAL STABILITY REVIEW

16. The South African Reserve Bank issued its biannual Financial Stability Review, highlighting inflation and financial risks facing South Africa, one week before the Monetary Policy Committee meets (October 14) to decide whether interest rates should be changed. Increasing oil prices presented the largest risk to inflation and global economic recovery. A strong rand has cushioned South Africa from much of the effects of higher oil prices, although the rand has depreciated 1.1 percent in September and domestic gasoline prices have risen 37 rand cents per liter since August. The review also highlighted the importance of providing banking services to the two-thirds of South Africans who do not have banking accounts, but urged that the adopted policies be well conceived. "Unsound policy decisions or financial sector initiatives to broaden access have the potential of posing a threat to the integrity of the formal financial sector." Note Business Report, Business Day, October 7 Endnote

SOUTH AFRICA DROPS IN GLOBAL INVESTMENT RANKINGS

17. The 2004 annual AT Kearney Foreign Policy globalization index ranked South Africa 49th out of 62 countries as a destination for foreign investment, a drop of 11 places and behind Botswana, Nigeria and Uganda. The countries surveyed in 2002 account for 96 percent of the world's gross domestic product and

84 percent of the population. South Africa ranked low in the personal contact category, which includes cross-border communications, because of the high cost of international telecommunications and the low levels of remittance and personal transfers. Internet usage is ahead other African countries, but below most other developed countries. Tourism, political engagement, and technological integration were areas where South Africa ranked between 35 and 37 on the scale. Note This Day, October 7 Endnote

CABINET RECOMMENDS PUBLISHED ADMINISTERED PRICE INDEX

18. The cabinet recommended that Statistics SA (StatsSA) monitor and publish its administered price index on a monthly basis. StatsSA estimates that increases in prices regulated by the government account for 16 percent of overall consumer prices and 18 percent of consumer prices when mortgage payments are omitted. Prices that are set by the government include water, electricity, paraffin, gasoline, public hospitals charges, freight, telephone calls and postage. StatsSA has proposed two approaches to compiling the index, one limited to prices actually set by government and the other including VAT and TV license fees. For the latest monthly price release, StatsSA included administered prices (regulated by both government and state-owned enterprises) and found that they rose by more than the targeted inflation range of 3 to 6 percent. During August, StatsSA estimated that administered prices using CPIX (excluding mortgages) increased by 6.3 percent while administered prices in overall consumer prices increased 6.8 percent. The cabinet agreed that price setting should take into account inflation targets, as well as efficiency, equity objectives and long-run demand and supply projections. Note Business Day, This Day, October 7 Endnote

JULY RETAIL SALES INCREASE BY 15.5 PERCENT

19. On an annual basis, retail sales grew by 15.5 percent, showing the underlying strength in consumer demand that is driving South African economic growth. Adjusted for inflation, retail sales increased by 11.7 percent in July. Consumers continued to take on new debt as the private sector credit extension increased by 6 percent in July, in addition to an 11.3 percent increase in money supply. So far, the strong rand has shielded the economy from inflationary pressures, allowing the Reserve Bank to cut interest rates in August. Whether the Reserve Bank will cut interest rates at next week's Monetary Policy Committee meeting will depend on its view of future oil prices and wage settlements. Note Standard Bank, Taking Stock, October 7; Business Report, October 8 Endnote

FRAZER